

AR32



BILTMORE INDUSTRIES LIMITED

ANNUAL REPORT 1976

five year financial summary

	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u> ¹	<u>1972</u> ²
Income					
Sales	\$8,807,211	\$7,793,668	\$6,853,181	\$6,058,752	\$3,842,809
Net income for year	280,078	234,926	236,634	220,527	127,431
Earnings per share ³					
Undiluted	82.6 ¢	67.4 ¢	68.1 ¢	62.9 ¢	35.5 ¢
Fully diluted	61.4 ¢	51.5 ¢	52.0 ¢	48.3 ¢	30.6 ¢
Financial Position					
Working Capital	1,385,389	1,203,730	1,059,667	894,065	919,474
Fixed Assets—net	347,655	342,479	344,694	361,886	343,186
Other Assets	430,797	380,322	342,815	311,160	135,441
	2,163,841	1,926,531	1,747,176	1,567,111	1,398,101
Long-Term Debt	8,100	10,800	13,500	16,700	28,753
Deferred income taxes	13,300	400	—	—	—
	21,400	11,200	13,500	16,700	28,753
Shareholders' Equity	\$2,142,441	\$1,915,331	\$1,733,676	\$1,550,411	\$1,369,348

- 1 Watson Brothers Limited was acquired on January 5, 1973. Results for 1973 and subsequent years include the results of both Watson Brothers Limited and Custom Leather Products Limited.
- 2 Year-end was changed from October 31 to December 31. Results are for fourteen months including results of Custom Leather Products Limited for two months.
- 3 Reflects the 1972 share split of four new common shares plus one Class "B" share for each old common share, and four Convertible Class "A" shares plus one Class "B" share for each Class "A" share. In 1973, the Class "B" shares were exchanged for common shares and the Convertible Class "A" shares were re-classified as Convertible Preferred Shares.

the president's report

On behalf of the Board of Directors, I am pleased to present the Annual Report.

Earnings for the year ending December 31, 1976 were up 19% at \$280,078 or 82.6¢ per share (61.4¢ per share fully diluted) as compared to \$234,926 or 67.4¢ per share (51.5¢ per share fully diluted) for previous year. Sales were up 13% at \$8,807,211. Dividends of 25c per preferred share and 5¢ per common share were paid during the year. Working capital was increased by \$181,659 during the year bringing total working capital to \$1,385,389 or \$3.11 per share based on 446,150 shares.

Headwear operations improved during 1976. Shipments were ahead 14.8% in dollar terms reflecting customer acceptance of our new styles. In spite of increased cost pressures, our manufacturing efficiency improved significantly during the year both in terms of labour productivity and improved quality.


Watson Brothers Limited, fine quality neckwear manufacturers, had another good year. Both sales and profits improved over the previous year. Again this year we are happy to advise that the earnings of Watson were more than sufficient to warrant full payment on that part of the notes payable contingent on 1976 earnings. At the start of this year, Mr. William Detenbeck was appointed Chairman of the Board of Watson Brothers Limited; succeeding him as President of Watson is Mr. Paul MacDonald.

To further our marketing goals, particularly in the important Quebec region, Watson and Custom Leather Products are now marketing ties and belts under the Michael Robichaud label.

Custom Leather Products Limited continued its improvement. Sales were up again significantly in the men's belt business. Profits of the company were also improved over the previous year in spite of the start-up expenses for an automotive dash pad contract which were charged against 1976 revenues. The benefit of this contract should flow through in 1977. In addition to starting up this new line of business, Custom is now beginning to market its belts in the U.S.

We express our appreciation for the full support and co-operation of our co-workers, as well as thousands of retailers from coast to coast, all of whom contributed to our operation in 1976.

ON BEHALF OF THE BOARD OF DIRECTORS,

A handwritten signature in cursive script, reading "Michael McMillan".

Michael McMillan,
President.

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

consolidated statement of income

	Year Ended December 31	
	1976	1975
Sales	\$8,807,211	\$7,793,668
Cost of sales	5,730,575	5,125,579
Selling, general and administrative expenses	2,594,158	2,276,163
	<u>8,324,733</u>	<u>7,401,742</u>
Income before taxes and extraordinary item	482,478	391,926
Income taxes—Current	189,500	160,300
—Deferred	12,900	5,800
	<u>202,400</u>	<u>166,100</u>
Income before extraordinary item	280,078	225,826
Extraordinary item:		
Reduction of current year's income taxes of a subsidiary on application of a loss carryforward	—	9,100
Net Income	<u>\$ 280,078</u>	<u>\$ 234,926</u>
Earnings per common share based on the weighted average number of shares outstanding during the year		
Before extraordinary item	82.6¢	64.3¢
After extraordinary item	82.6¢	67.4¢
Fully diluted earnings per share (Note 1)		
Before extraordinary item	61.4¢	49.6¢
After extraordinary item	61.4¢	51.5¢

consolidated statement of retained earnings

Balance at beginning of year	\$1,679,868	\$1,498,213
Net income	280,078	234,926
	<u>1,959,946</u>	<u>1,733,139</u>
Dividends:		
Preferred shares	38,326	38,728
Common shares	14,642	14,543
	<u>52,968</u>	<u>53,271</u>
Balance at end of year	<u>\$1,906,978</u>	<u>\$1,679,868</u>

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

consolidated balance sheet

Assets

	December 31	
	1976	1975
Current:		
Cash	\$ 218,160	\$ 150,137
Accounts receivable	1,557,442	1,869,859
Income taxes recoverable	—	18,235
Inventories (Note 2)	2,154,118	1,785,996
Prepaid expenses	373	1,231
	<u>3,930,093</u>	<u>3,825,458</u>
 Cash surrender value of life insurance	 3,847	 3,372
Fixed assets, at cost (Note 3)	1,631,073	1,579,819
Less - Accumulated depreciation	<u>1,283,418</u>	<u>1,237,340</u>
	347,655	342,479
 Excess of cost of shares in subsidiaries over net book value of assets acquired (Note 4)	 426,950	 376,950
	<u><u>\$4,708,545</u></u>	<u><u>\$4,548,259</u></u>

Approved by the Board:

D. Michael McMillan, Director

George H. Montague, Director

Liabilities

	December 31	
	1976	1975
Current:		
Bank advances (Note 5)	\$1,616,250	\$1,660,379
Accounts payable and accrued liabilities	831,394	899,377
Notes payable	50,000	50,000
Income taxes payable	35,162	—
Dividends payable	9,198	9,272
Current portion of Long-term debt	2,700	2,700
	<u>2,544,704</u>	<u>2,621,728</u>
Long-term debt payable to April 30, 1980	8,100	10,800
Deferred income taxes	13,300	400
	<u>2,566,104</u>	<u>2,632,928</u>
Shareholders' Equity		
Capital stock (Notes 6 and 7)	235,463	235,463
Retained earnings	1,906,978	1,679,868
	<u>2,142,441</u>	<u>1,915,331</u>
	<u>\$4,708,545</u>	<u>\$4,548,259</u>

consolidated statement of changes in financial position

	Year Ended December 31	
	1976	1975
Financial resources were provided by:		
Operations—		
Income before extraordinary item	\$ 280,078	\$ 225,826
Add charges which do not affect current funds—		
Depreciation and amortization	57,514	49,146
Deferred income taxes	12,900	5,800
	<u>350,492</u>	<u>280,772</u>
Reduction of current year's income taxes of a subsidiary on application of a loss carryforward	—	9,100
Reclassification of deferred income taxes of a subsidiary	—	7,400
Sale of fixed assets	7,218	14,779
	<u>357,710</u>	<u>312,051</u>
 Financial resources were used for:		
Purchase of fixed assets	69,908	61,710
Increase in cash surrender value of life insurance in subsidiary	475	307
Reduction of long-term debt	2,700	2,700
Dividends	52,968	53,271
Excess of cost of shares in subsidiary company over net book value of assets acquired	50,000	50,000
	<u>176,051</u>	<u>167,988</u>
Increase in working capital	181,659	144,063
Working capital at beginning of year	1,203,730	1,059,667
Working capital at end of year	<u>\$1,385,389</u>	<u>\$1,203,730</u>

notes to consolidated financial statements

DECEMBER 31, 1976

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Fixed Assets and Depreciation

Fixed assets are carried at cost. Depreciation is calculated on a diminishing balance basis at annual rates of 5 per cent on buildings, 20 per cent on machinery and equipment and 30 per cent on automotive equipment. Leasehold improvements are amortized over the life of the lease plus one renewal option term if applicable.

Deferred Income Taxes and Income Taxes Payable

Deferred income taxes are provided for expense items reported for tax purposes in different periods than for financial reporting purposes, thus creating a timing difference, the tax effect of which is reflected under this heading. Provision is made for all income taxes currently payable.

Excess of Cost of Shares in Subsidiaries Over Net Book Value of Assets Acquired

The excess of purchase price of investments in subsidiary companies over the net value of the underlying tangible assets acquired is retained as an asset in the consolidated balance sheet and is not being amortized.

Earnings Per Share

Earnings per common share calculations are based on the weighted average number of shares of common stock outstanding during the respective years, after net earnings are reduced for convertible preferred dividend requirements. Fully diluted earnings per share calculations assume the conversion of convertible preferred shares and the exercise of the outstanding option. In calculating such earnings, a return of prime bank rate on the proceeds of the exercise of options has been assumed. The calculation does not include the shares which may arise as a result of the circumstances described in note 8 because their issuance is dependent on earnings accruing in the subsidiary in the coming year.

2. INVENTORIES

	December 31 1976	1975
Raw materials and supplies	\$ 958,510	\$ 739,952
Work-in-process	547,218	457,956
Finished goods	648,390	588,088
	<u>\$2,154,118</u>	<u>\$1,785,996</u>

3. FIXED ASSETS

	December 31, 1976			December 31 1975
	Cost	Accumulated Depreciation and Amortization	Net	Net
Land	\$ 1,850	\$ —	\$ 1,850	\$ 1,850
Buildings	430,167	237,806	192,361	202,485
Machinery and equipment	1,159,912	1,020,491	139,421	124,899
Leasehold improvements	39,144	25,121	14,023	13,245
	<u>\$1,631,073</u>	<u>\$1,283,418</u>	<u>\$347,655</u>	<u>\$342,479</u>

4. GOODWILL

The excess of cost of shares in subsidiaries over net book value of assets acquired has increased by \$50,000 in 1976 by a payment made in accordance with the agreement described in Note 8.

5. BANK LOANS AND ADVANCES

The Company and a subsidiary have pledged accounts receivables and inventories with a carrying value of \$3,362,102 as security for bank advances of \$1,616,250

6. CAPITAL STOCK

a) Authorized

158,000 convertible preferred shares without par value, entitled to cumulative dividend of 25c per share per annum, each convertible into common shares on a share for share basis.
2,000,000 common shares without par value.

	1976	1975
b) Issued		
153,305 convertible preferred shares (154,525 in 1975)	\$ 32,760	\$ 33,020
292,845 common shares (291,625 in 1975), including 1,220 (770 in 1975) shares issued on conversion of preferred shares	202,703	202,443
	<u>\$235,463</u>	<u>\$235,463</u>

c) Common shares reserved

For the conversion of convertible preferred shares	153,305
For the exercise of options (Note 7)	15,000
For the conversion of notes payable— See Note 8	21,334
	<u>189,639</u>

7. OPTIONS

On June 9, 1972 the Company granted an option to an officer to purchase a total of 15,000 common shares at a price of \$3.25 per share. The option, which expires on June 8, 1977, entitles the holder to purchase on a cumulative basis up to 3,000 common shares in each year of the option period. No options were exercised in 1976.

8. OTHER CONTINGENT LIABILITIES

Under the terms of an agreement pertaining to the acquisition of the shares of a subsidiary in 1973, the Company may be obligated to pay, contingent additional amounts over a four year period, as determined by a formula based upon the acquired Company's earnings, not to exceed in aggregate \$250,000.

Under the terms of the formula above, \$150,000 of the contingent amount has previously been paid and \$50,000 has become due in respect of the year ended December 31, 1976. This latter amount is included in notes payable at that date. The contingent amounts payable have correspondingly been reduced to \$50,000.

notes to consolidated financial statements

continued

The amount due at December 31, 1976 and the balance of the contingent consideration noted are represented in part by a note convertible at the option of the holder into a maximum of 21,334 common shares at the rate of 1 common share for each \$3.75 principal amount determined to be payable in the years 1977 and 1978.

9. REMUNERATION OF DIRECTORS AND OFFICERS

During the year ended December 31, 1976 the aggregate amounts paid or payable by the Company and its subsidiaries to seven directors in their capacity as directors was \$2,550 (\$1,950 in 1975) and to six officers as officers was \$206,637 (\$186,800 in 1975). Three of the directors are also officers of the Company or its subsidiaries.

10. OTHER INFORMATION

	1976	1975
Depreciation and amortization:		
Included in cost of sales	\$ 47,013	\$ 36,032
Included in selling, general and administrative expenses	10,501	13,114
	<u>\$ 57,514</u>	<u>\$ 49,146</u>
Interest on current debt	\$200,907	\$181,149

11. CHANGES IN FINANCIAL STATEMENT PRESENTATION

The presentation of certain items in the 1975 comparative financial statements has been changed to conform to accounting classifications adopted in 1976.

auditors' report To the Shareholders of Biltmore Industries Limited:

We have examined the consolidated balance sheet of Biltmore Industries Limited and its subsidiaries as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements of one of the consolidated subsidiaries for the year ended December 31, 1975 were examined by other independent public accountants.

Price Waterhouse & Co.

Kitchener, Ontario
February 18, 1977

Chartered Accountants

BILTMORE INDUSTRIES LIMITED AND SUBSIDIARIES

corporate directory

HEAD OFFICE, GUELPH, ONTARIO

Board of Directors

WILLIAM A. DETENBECK, Port Credit, Ontario
JAMES W. McCUTCHEON, Toronto, Ontario
* D. MICHAEL McMILLAN, Guelph, Ontario
NORMAN McMILLAN, Guelph, Ontario
* GEORGE H. MONTAGUE, Toronto, Ontario
* PHILIP M. SPICER, Hamilton, Ontario
DAVID B. WELDON, London, Ontario

* Member of the Audit Committee

Officers

NORMAN McMILLAN, Chairman of the Board
D. MICHAEL McMILLAN, President
NORMAN B. IRWIN, C.A., Secretary-Treasurer

Subsidiary Companies

CUSTOM LEATHER PRODUCTS LIMITED, Kitchener, Ontario
WATSON BROTHERS LIMITED, Toronto, Ontario
BILTMORE HATS (WESTERN) LIMITED, Guelph, Ontario
(non-operating)

Auditors

PRICE WATERHOUSE & CO., Kitchener, Ontario

Registrar and Transfer Agents

CANADA PERMANENT TRUST COMPANY, Toronto, Ontario

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE

Stock Listing

TORONTO STOCK EXCHANGE, Toronto, Ontario

BILTMORE